

Business Organization of Firms Involved in Exporting

"In House"

The organization of a firm and how its wood products are sold overseas are related to and depend on several factors including the size of the company, productive capacity, types of wood products and degree of processing, previous exporting experience, and business conditions overseas. "In-house" organization of the business involves direct selling of wood products by the U.S. producer to the foreign importer. The producer is usually responsible for shipping the product overseas.

Traditional and customary marketing and business practices in a foreign country will dictate how the products will be sold.

Depending on the country, direct selling may involve working with foreign sales representatives, agents, or distributors. For example, agents are very active in the wood products trade in the United Kingdom and other European countries. In Japan, trading companies are the primary contacts.

"In-house" organization will provide the company greater control over the export marketing procedures for the firm's products. In

general, there are higher start-up costs and fewer economies of scale under this organizational structure than with the others described below.

**Export
management
companies (EMCs
or agents)**

EMCs are generally small, closely held companies which represent wood products manufacturers in export marketing. The EMC may represent a number of small, unrelated companies and provide benefits (economies of scale) relating to foreign sales, marketing missions, and scheduling or shipping products for export. The EMC often retains the identity of the manufacturer when dealing with foreign importers, whereas agents work under their own names.

**Export trading
companies
(ETCs)**

The largest domestic barriers to exporting—lack of knowledge of foreign marketing, limited credit facilities, and legal restrictions in cooperating with other U.S. companies (antitrust violations)—may be hurdled by forming an export trading company (ETC). ETCs may assume the risks involved with international trade by taking title to the products and assuming responsibility for marketing and selling the products overseas.

One publication, the *Export Trading Company Guidebook* is available for sale from the U.S. Government Printing Office, Tel.

(202) 512-1800. Additional assistance may be obtained from the Office of Export Trading Company Affairs, International Trade Administration, Herbert C. Hoover Building, 14th and Constitution Ave., NW, Washington, DC 20230; Tel. (202) 482-5131.

**Export merchants
(EMs)**

Similar to an ETC, an export merchant (EM) may take title to a producer's goods and be responsible for selling to the foreign importer. The advantages of using an export merchant include:

1. Wood products are sold to an export merchant domestically. Producers do not need to be familiar with foreign business practices—this is the responsibility of the EM.
2. The EM may handle all intermediate processing and handling functions, such as pressure treatments or kiln-drying of lumber prior to export.
3. The EM may serve as a "sorter" or distribution yard for lumber and other products. This permits lumber to be regraded specifically for export and specialty markets. Lower volume, high-quality products may become more marketable as a result of using an EM.
4. EMs may become familiar with the operation of small lumber

mills and wood producers and may provide valuable assistance in producing wood products for the export market.

**Foreign sales
corporation (FSC)**

Under the Foreign Sales Corporation (FSC) Act of 1984, an FSC is a corporation established in a foreign country or U.S. possession, excluding Puerto Rico, which may obtain a tax exemption on a portion of the earnings generated by the sale or lease of export property and the performance of some services. As a general rule, 15 percent of the profits from qualifying export transactions are treated as tax-free income.

The FSC program was intended to replace the Domestic International Sales Corporation (DISC) program which had been interpreted by members of the councils of the General Agreement of Tariffs and Trade (GATT) as an illegal tax subsidy for exports.

FSCs cannot provide long-term tax deferrals and retention of profits to secure tax benefits. Rather, FSCs obtain tax exemptions on approximately 30 percent of the FSC foreign trade income if the FSC buys from independent suppliers—a smaller percent is given if parent corporations are the suppliers. Special administrative pricing rules apply if the FSC purchases from related suppliers.

An FSC must be incorporated and have its main office in a foreign country or U.S. possession, including the U.S. Virgin Islands, American Samoa, Guam, and the Northern Marianas. Additionally, an FSC must have at least one director who is not a U.S. resident and maintain a set of books at its main off-shore office. It cannot have more than 25 shareholders and cannot have any "preferred" stock. An "election" to become an FSC must be filed with the Internal Revenue Service (IRS).

An FSC may be incorporated in the following countries and U.S. possessions:

American Samoa	France	New Zealand
Austria	Germany	Northern Marianas Is.
Barbados	Grenada	Norway
Belgium	Guam	Pakistan
Canada	Iceland	Philippines
Cyprus	Ireland	South Korea
Denmark	Jamaica	Sweden
Dominica	Malta	Trinidad and Tobago
Egypt	Morocco	U.S. Virgin Islands
Finland	Netherlands	

When selecting a location for the FSC one should take into account that the IRS will not allow foreign tax credits for foreign taxes imposed on the FSC's qualified income. Because of this, most FSCs are incorporated in the U.S. Virgin Islands.

Small exporters may establish either a "small" FSC or an

"interest-charge" FSC depending on the level of export income.

Small FSCs, with gross export income of \$5 million or less, have less stringent rules to meet.

FSCs can be formed by manufacturers, nonmanufacturers, or export groups. They can function as principals, buying and selling for their own account, or as commission agents. The FSC may be related to a manufacturing parent company or can be an independent merchant or broker. Commission agents are required to perform specific activities with respect to the export sale.

Other management activities must be performed at the offshore location. For further information about FSCs, jointly-owned FSCs, minimal foreign presence FSCs, small business FSCs, and export trading companies, contact the Office of Export Trading Company Affairs at (202) 482-5131.